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## INTERNATIONAL ARBITRATION AND INTERNATIONAL FINANCE

It has come to be increasingly recognized during the past few years, and especially since the establishment of The Hague Tribunal, that the real wish of the different nationalities concerned—though often of the peoples as distinguished from the governments—is for international peace. The attitude of the popular mind is thus distinctly different from what it was forty years ago, when war and warlike policies might have been described as popular; it is different from that of twenty years ago, when war was generally looked upon as inevitable. Neither of these previous points of view is adopted by the people at large today. Even in states with a military history, such as France and Germany, the position of a good part of the people is one of opposition to war except as a last resort, of bitter criticism of belligerent policies in diplomacy, and of vigorous support to all proposed plans of compulsory arbitration. The present-day attitude of the people is a result partly of the increasing intensity of commercial careers and the resentment at forced military service; partly of the unfortunate consequences of certain wars to the people engaged in them; partly of the burden of taxation heaped up as a result of them; partly of the strain on public credit, even in those nations which have limited their ambitions to preparation for war; partly, it may be hoped, of a better understanding of the true interests of society at large, and of the consequent disappearance of the old and senseless popular jealousy between the inhabitants of different states.

But even with this growing recognition of the social disadvantages of war as an institution, it has repeatedly seemed as though the movement to hold back nations from engaging in armed conflict was making little progress. There possibly never was a time when the talk of international good will was more widespread than in 1897, and The Hague Tribunal, designed eventually to put an end to the arbitrament of arms, was established in 1899. Yet on

the very eve of that year's conference the United States, whose armies had not been in the field since 1865, had indulged in one international conflict. Immediately after the conference, Great Britain, which had not fought with another civilized state since the Crimean war of the fifties, indulged in another. A few years later Russia, whose sovereign had called the international convention of 1899, was in the field in one of the most destructive wars of modern times. Italy has lately gone to war with Turkey for purposes of territorial aggrandizement, and a good part of the past year has been occupied with conjectures in European political and financial circles as to whether war between Germany and France, or war between Germany and England, might not break out at any moment.

Just what the trouble is, and why the systematic machinery for arbitration has not been more effective in stopping these larger conflicts, are questions to which very different answers will be given by different people. There is still a body of opinion, voiced most emphatically, perhaps, by Mr. Roosevelt, that war is somehow a nourisher of the manly virtues, and that without international war national patriotism would decay. It is doubtful, however, if this view of the case has made much headway during recent years; it is certain that it is not nearly so predominating an influence in the field as it was half a century ago. Much may be said, in explaining the continuance of war, regarding the attitude of public men, some of whom even today find an available political program in nursing international jealousy, and others of whom, as was probably the case in Italy's recent declaration of war on Turkey, see as plainly as their predecessors did in the nineteenth century that a government whose political plans and whose official existence are about to collapse can sometimes maintain its hold through invoking war and thereby appealing to the instinct of popular patriotism, which always asserts itself when war has actually begun. Much might be said of the influence of the enormous preparations, naval and military, made ostensibly for the purpose of averting war. Every experienced student of society and history knows that at some point the constant accumulation of such weapons of offense leads to a restless suspicion of other nations which are pursuing

the same policy, and equally to a wish that somehow or other these huge engines of military or naval achievement may be used.

Whatever the cause or causes for the slowness with which arbitration meets the problem of war, the fact is generally admitted; and with that recognition there has come also recognition of the fact that only one strong and organized influence exists in civilized nations which has been employed, and which may be even more effectively employed hereafter, for the purpose of putting a brake on ambitious governments and on popular passion. I refer to what is commonly called the conservative investment community.

I am not ignoring the influence which the Christian religion is supposed to exercise. The attitude of the sincere believer in the principles of that religion and its founder is manifestly against war. We are not, however, speaking of theoretically logical results, but of actual results, and the test of history hardly warrants reliance on the Christian religion, as practiced by the civilized world, for a barrier to or even a brake upon international hostility. It is one of the curious facts of the problem that the epochs when there seemed to exist the least restraint on war were periods when the Christian religion, in its various forms and institutions, played the largest part in human society.

Nor do I overlook the fact that some of the most vigorous criticisms of the institution of war have come in recent days from the Socialists, who are the antithesis, in most of their principles, of what they call the capitalistic group. But with the Socialists, too, it must be pointed out that they have not checked the tendency to war, except so far as they may have modified the popular taste for it. Their influence thus far has been negative, and what we are just now inquiring for is a positive influence.

Civilization is no doubt entering now—especially in the United States—upon a period when public opinion in the larger sense is being organized, through leagues, conventions, and public gatherings of every sort, in a manner which will hereafter make possible the applying of strong pressure or restraint upon governments for the maintenance of peace and the recognition of arbitration. The character of recent assemblages of the sort promises much for the future. But for the moment the influence even of this organiza-

tion of public opinion is indefinite and, so far as concerns the action of public men, problematical; the movement is still more or less an experiment; its power in a real and critical emergency has not yet been tested.

But in the case of the conservative international investment community, the test has already been applied. Its power in exigencies of the sort has very lately been demonstrated anew, and in a highly interesting way. Sir Edward Grey's speech to Parliament last November, setting forth the situation which in mid-summer existed between the English and German governments, made plain to the world that a crisis actually had arisen at that time, such as might easily, under a Palmerston or a Napoleon III, have resulted in war between those nations. Something much like a challenge had been exchanged at London between the British foreign secretary and the German ambassador. England had made certain representations to Germany regarding its attitude in the Morocco dispute with France, which the German government had pronounced inadmissible. After an interval of time—the delay being ascribed by each party to the fault of the other—England renewed with emphasis its statement of its own position.

The situation was unquestionably critical, but it did not end in war. Something interfered at the very last moment to hold back the German government from what would otherwise very possibly have been the throwing-down of the gauntlet to Great Britain in such a way that declaration of war would have been the only outlet. No official explanation has been made as to what this restraining consideration was. The German government merely changed the tone of its communications, and the English government expressed its gratification at Germany's new attitude. Each withdrew a little of its own pretensions, and each expressed diplomatic good will for the other. But as to why the change had come, nothing was said. It was admitted in general discussion of the subject that both the English and German people disliked the idea of war; but it was also declared in quarters where judgment should have been correct that both nations had approached that well-known frame of mind in which a distinct suggestion of an appeal to arms would have been the spark in the powder-barrel.

It was said by some people in the thick of events that the attitude of the Socialist party in Germany and of the Labor party in England was a restraining influence. Others have intimated that the Kaiser exerted his personal influence in behalf of peace. Still others believed, and still believe, that the German government, having sounded its diplomatic connections, and having learned that war with England or with France would mean war with both England and France—in which case Germany would be over-matched—made up its mind to retire as gracefully as possible from an untenable position. But back of all these specific explanations there is a very strong body of opinion, based upon well-known facts and tendencies of the day, which holds that the powerful and conservative financial interests of all three countries had taken a hand in the important game at the critical hour, and had applied the strongest kind of pressure to hold back their governments.

In Germany especially, relations between the government and the banking interests are peculiarly and necessarily close. The government is a constant borrower on the market, even for ordinary public expenses; it has been, moreover, a primary purpose both of the Emperor and of the Reichstag to promote the financial and industrial interests of the empire. This being so, it may readily be imagined that the voice of the financial and industrial community would be sure to get a hearing.

Its feeling was somewhat vigorously expressed. When the actual settlement of the dispute between France and Germany was still postponed, when negotiations which seemed in a way to be complete were protracted from month to month, and when the question again began to be asked whether the patience of one or the other negotiator would give out, the financial uneasiness of midsummer appeared in much more disturbing form. As a result, both France and Germany were treated to a financial object-lesson in the bearing of war on trade, finance, industry, and public credit.

The Paris bankers, who had been lending heavily in Germany out of their own overflowing surpluses, started as early as July to recall such balances. The German market and the German trade, which had expanded to great activity, largely on the basis of this foreign capital, showed signs of breaking down. At

the opening of September, a financial crisis occurred in Berlin, which for a day or two threatened to grow into a first-rate panic. The rate of interest rose to figures not witnessed in Berlin since the crisis of 1907; there were heavy failures; all the great industries began at once to reduce their programs of expansion. Nor was France very much better off, even though it was French capital whose recall had pulled down the German markets; for by the time the bankers had begun to feel more reassured over the international situation, the thrifty middle classes of the French people took alarm. Most of them had a very definite recollection, either through personal experience or through the narrative of their parents as to what had followed the Franco-Prussian War of 1870. Recalling, no doubt, the suspension of the great banks of France at the crisis of that struggle, and the prodigious public loans which were raised to pay for the war and for the billion-dollar indemnity imposed by Prussia, these people at once began to draw out actual cash against their bank deposits, and to hoard it. Larger capitalists merely held back their capital from investment, even in the short-time money market, with a view to using it quickly in a real emergency; but the public engaged in something very much like a run upon the banks. It was said that some French banks in the middle of September lost half of their deposits. Despite the return of capital loaned to Germany the bidding of the past month for foreign capital was so urgent at that time as to break the French exchange in London to a figure rarely witnessed except in a first-rate crisis. In both countries, and, in a measure, in England also, a severe collapse of investment markets and a definite halt in the movement of trade ensued.

Now, this object-lesson had its uses, both in its bearing on the immediate crisis in which it had originated and on the larger problem of the relations between the governments. It was a very much needed lesson, and may safely be assumed to have given the final seal of emphasis to the representations which were believed to have been made to the German government by the great financial houses, regarding the economic and social dangers which would be invoked by an act of war. It may be hoped that these same tendencies, once they have been so strikingly recognized, will play

an even greater part in restraining statesmen from hastily committing themselves or their several nations to a position rendering international hostility probable. The attitude of the entire civilized world in publicly denouncing Italy's action, in October, of declaring war on Turkey, was an instance of the somewhat new view of war which the experiences of July and September had created in the European mind. It is not improbable that the same influences similarly exerted both in France and in England on a previous occasion, during the critical Fashoda dispute of 1898, had an essential part in paving the way for the Anglo-French agreement which was established a very few years later.

It should be obvious on the face of things, however, that an appeal to the conservative and wealthy interests to use pressure in behalf of peace should be made judiciously. There is a point where deference to the wish of such interests not to disturb peace and not to upset the markets might come to mean international cowardice, inertia, or decay. Absurd and illogical as is the resorting to war for the settlement of international disputes, there are occasions when no other means of settlement—not even peaceable arbitration—can exist. Such a situation would manifestly arise in the case of actual invasion of a country's territory or foreign possessions by a rival who refused to submit its own pretensions to a court of arbitration. A nation thus attacked could not stand quietly by and appeal to The Hague Tribunal. There are, unfortunately, disputes which cannot be arbitrated, and it is sometimes in these very disputes that the influence of conservative wealth may be misapplied.

Our own Civil War is a striking instance in point. New York, which then, as now, held a great part of the American community's mobile wealth, was deeply engaged in the southern trade, and voiced a great body of financial opinion in favor of yielding to the South. As late as the Montgomery Convention, in the early months of 1861, when the Southern Confederacy was formally launched, the mayor of New York, in a public speech, expressed his hope that, in the general dismemberment of the Union, New York would be able to establish its own position as a "free city" on the old-time basis of Hamburg or Bremen, and to deal



with both North and South as its interests should dictate. It is true that, when the first shot of the war was fired at Sumter, even such timid-spirited citizens joined in the call to arms. But if the pressure of conservative wealth had been the controlling force in national affairs when the policies of the government at Washington had reached the crucial moment, the result would undoubtedly have been surrender to the southern disunionists. Something not wholly unlike that situation existed during the Revolution of 1776. This does not mean that the wealthy classes are necessarily either unpatriotic or cowardly; London, which was as essentially the center of English wealth in the seventeenth century as it was in the nineteenth, was the leading spirit in the Revolution of 1641, which led to the Long Civil War, and was so again in the Revolution of 1689, which bade fair to invoke a similar contest.

But, as a general rule, the facts that capital is slow to rush into war excitement, that it looks on all sides of the question involving war, mistrusts the honesty of designing politicians, sees from force of habit the rights as well as the wrongs of a national antagonist, and measures beforehand the real hazards of war, whether military, political, or financial, are the determining considerations. This being its natural temperament and the bent of mind which all the training of finance and industry would create, the investment community becomes an invaluable balance-wheel, because these qualities are exactly what the people at large fail to display at junctures of the sort. It is the people taken as a whole who, at the psychological moment when war hangs in the balance, give themselves up to military enthusiasm; assume a provocative attitude; take easy victory for granted; follow those politicians who make a shrewd appeal to national pride, international jealousy, to fighting instinct; denounce the foreigner simply because they do not understand him, and, finally, dismiss all thought of possible defeat until the sudden shock of the first adverse military news comes in, all thought of government tyranny until the state of war has been used to justify anything, and all thought of crushing national debt and mounting personal taxation until pay-day comes. There is no single class in the community, other than the conservative business and investing classes, which is fitted by instinct, training, dis-

position, and opportunity to insist that the government go slow in committing the country to a program of war, and which is able to show its reasons for such insistence.

Granting the possibility of such beneficent influence, how is the power of the wealthy and conservative classes in the various nationalities best to be applied? There will naturally be numerous and different answers to this question. They will depend, not alone on what is the most advantageous way, in the interests of the people at large, to apply such pressure as may be possible, but also on the known tendencies of the banking interests. For, as we have seen already, it will always remain true that at a certain point neither the judgment nor the motives of the powerful financial interests can be altogether trusted in a matter of the sort. First, and most obviously, their influence may and can be applied by the cultivation and extension of friendly international relations in every sphere of life. This, to be sure, is a normal function of trade; in the absence of such an attitude, international commerce would itself be all but impracticable, since the first office of a merchant endeavoring to place his goods in a foreign market is to establish the friendliest possible relations with the people of that market, both on his own account and on account of his country. So fully recognized has this function of trade always been that the English merchants and manufacturers long ago reckoned as an important factor in the extension of their foreign commerce the sending of junior partners and younger sons to take up residence in those foreign countries and cultivate cordial social acquaintance with the inhabitants.

But the cultivating of friendly international relations involves something more than the mere opening of foreign markets. That process, indeed, has indirectly, during the past decade or two, played its part in fomenting rather than allaying international jealousies. England and Germany, each with its eye on a neutral market—say South America or Northern Africa—might spend their best endeavors in cultivating good relations with the country where they expect to sell their goods, yet at the same time be stirring up actual animosity between their own respective countries on account of trade rivalry and jealousy in the new field of export trade. It

will therefore have to be the function of the conservative business classes, if they are to accomplish anything permanent in this question, to put a restraint on precisely this senseless jealousy which has arisen among competitors; and that may not be so easy as it would seem.

We have lived during a good many years under the constant talk of trade as a primary influence in shaping international policies and creating international feeling. Not only have we to reckon with the jealousies created through invasion, by merchants of one nationality, of foreign markets regarded previously as another nation's special preserve, but the question of hostile tariffs is constantly before us, and the even more complicated problem of the so-called "spheres of influence" in the neutral export markets has by no means disappeared. How much this commercial bad feeling between nations had to do even with the recent dispute about Morocco, and particularly with the Anglo-German tension in that controversy, it might not be so easy to say. There have been numerous occasions, even in the past few decades, when the wealthy business interests were themselves open to accusation of having virtually incited war. We have had grave articles and expert opinion in England setting forth that this was the time, with the British navy predominant on the seas, to pick a quarrel, crush the growing sea-power of Germany, and thereby put an end to its effective commercial rivalry. We have had the same sort of outgivings in Germany, based distinctly on the theory that England could be ruined if her export markets were cut off, and that with Germany's newly developed resources of production, and its powerful armament on sea and land, this was the time to do it.

Now, it hardly need be argued how utterly futile is this conception of international trade. The theory had, perhaps, its strongest exemplification when Bismarck in 1871 imposed the five-billion-francs war indemnity on the defeated French government. His purpose, clearly enough avowed in the documents and memories of the time, was to crush France in a commercial way and reduce it to a state of both financial and political impotence. What followed is well known to students of history. The cash indemnity, which it was thought no nation could pay and remain solvent, was paid

by France, largely in the form of drafts on London and on Berlin itself. When, two years later, the panic of 1873 swept over Europe, the heaviest sufferer from that financial storm was by no means France. On the contrary, French trade and French industry had passed through so thorough a period of liquidation after the Franco-Prussian War that the troubles of 1873 all but passed over them. Berlin was the market on which the shock of panic descended most heavily, and it is an easily ascertainable fact that, in its appeal for financial relief from the outside, it was to Paris that the German merchants and bankers had to go, quite as much as to London. Recognition of such facts as these, not only by bankers but by merchants, will be necessary before the good influence of conservative capital can be exercised to the full in behalf of international good feeling.

There are legitimate avenues, even apart from the general encouragement of such international sentiment, through which such influence may be applied. One is the exercise of strong and continuous pressure in behalf of arbitration treaties and in behalf of reference of international disputes to The Hague Tribunal. It has been suggested, in some discussions of the matter, that bankers will at some future time adopt concertedly the policy of refusing to take the loans of governments which reject the principle of arbitration. This is perhaps not altogether feasible. On occasions of that sort it may be that governments are merely reflecting the attitude of their people and are themselves subject to overwhelming pressure of a sort which cannot be resisted. It will also probably remain true for all time that some banking interest will be found to lend at a price to whatsoever borrower wants the loan. Even the Central American governments, the home of chronic revolution, of unscrupulous public plunder, and of insane dictatorships, have always been able to float their loans abroad. The price was heavy, either in the form of the discount on the principal or of an exorbitantly high rate of interest; but these inconveniences have never yet, in the experiences of the states described, served to check the belligerent impulses of their governments. It is a sordid business, conducted between the usurer who has his eye on what will be left when the borrower is ruined and the spend-

thrift who rushes on to ruin careless of all results. But it is, nevertheless, a factor to be reckoned with when we talk of concerted action by capital.

What the enlightened sentiment of the investment markets will be able to accomplish is to exercise strong and continuous pressure on the governments themselves in favor of arbitration, and also to encourage general recognition of the fact that a government which adopts that policy is the safest market for investment. Capital even now will go most quickly and on the most advantageous terms to the markets of a country which is maintaining honorable peace. It will increasingly reject, either by outright refusal or by discrimination, the bids for capital by nations who are invoking needless war. Beyond this direct pressure through the markets, there will always remain the powerful, indirect influence which enlightened finance is able to apply on public sentiment. Perhaps the strongest illustration of possibilities in this regard was the unanimously hostile attitude of both markets and public opinion generally, throughout Europe and America, toward the recent exploit of Italy in the Mediterranean.

There is no doubt that very great influence is automatically exerted through the international holding of national securities, and this is an increasing influence. Governments which go to war have to borrow, at the present day, more heavily by far than at any previous period in the world's history, and it is a matter of considerable concern to them that the outside markets for their securities should not be depressed beforehand to a level at which the emission of new loans would lay intolerable burdens on the country's finances. The great body of international investors have utilized this power of insisting that governments should not rush blindly into war, and this attitude, combined with the enormous increase in the cost even of a small war, has made the Jingo policy by a ministry far less of a possibility today than a generation ago. Naturally, under such circumstances, the most powerful influence in that regard will be exerted by the nations whose citizens are the largest holders of securities of other states. This would apply particularly to England and France, the two great lenders on foreign government securities of the present day. How rapidly this invest-

ment fund is increasing may be judged from a recent careful investigation by the London *Economist*, which led to the estimate that British capital invested abroad had risen from £1,302,000,000 in 1885, £1,600,000,000 in 1895, and £2,025,000,000 in 1905, to £2,332,000,000 in 1909. The amount of French capital similarly invested outside of France has probably increased, in the corresponding period, at an even more rapid ratio. Nothing could be more natural than that the Taft administration, in its wise and timely effort to establish effective arbitration treaties, should have been able to make its first achievement in the negotiations with these two states. But whereas in France and England such negotiations had behind them the force of public opinion represented by lenders on international securities, in Germany and other similar states it would have behind it the public opinion among the borrowers on such securities; and the course of internal politics in Germany during the last few years has shown how large a part the dislike of impairing public credit and of swelling the people's tax bills was bound to play in the nation's attitude toward international diplomacy.

ALEXANDER D. NOYES

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